

**REPORT OF
FINANCIAL EXAMINATION**

**FARMERS MUTUAL INSURANCE
COMPANY OF DADE COUNTY**

**AS OF
DECEMBER 31, 2004**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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July 19, 2005
Lockwood, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FARMERS MUTUAL INSURANCE COMPANY OF DADE COUNTY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 810 Main Street, Lockwood, Missouri, telephone number (417) 232-4593. This examination began on July 18, 2005, and was concluded on July 19, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Notes to Financial Statements – Guaranty Fund

Comment: The Company was directed to calculate and report a guaranty fund amount in its Annual Statement, in accordance with RSMo. 380.271 (Guaranty fund required).

Company Response: The Company agreed to report a sufficient guaranty fund amount in future Annual Statements.

Current Findings: The Company reported an adequate guaranty fund amount in the Annual Statements filed during the examination period.

Fidelity Bond and Other Insurance

Comment: It was recommended the Company increase its fidelity bond to a minimum of \$75,000 in coverage.

Company Response: The Company increased its fidelity bond coverage to \$100,000 in 2000 and maintained the level of coverage throughout the examination period.

Current Findings: The Company complied with the recommendation of increasing its fidelity bond coverage.

HISTORY

General

The Company was originally organized and incorporated on May 9, 1892, as Farmers Mutual

Insurance Company of Dade County. In 1975, the Company was merged with Farmers Mutual Insurance Company of Wright County, with Farmers Mutual Insurance Company of Dade County being the surviving entity.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Friday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Tom McArthur Route 2 Box 74 Lockwood, Missouri	Retired/Farmer	2003-2006
Kenneth Spain Route 1 South Greenfield, Missouri	Farmer	2004-2007
Larry Witt Route 1 Box 1885 Dadeville, Missouri	Property Inspector	2002-2005

Danny Bettis P.O. Box 120 Lockwood, Missouri	City Employee	2004-2007
Helen Shouse Route 2 Box 101 Lockwood, Missouri	Retired	2002-2005
Larry Kenney Route 1 Box 1 Everton, Missouri	Business Owner	2003-2006
Sherri Wise Route 2 Box 330 Greenfield, Missouri	Company Manager	2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

Kenneth Spain	President
Larry Kenney	Vice-President
Sherri Wise	Secretary
Tom McArthur	Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 1, 2002, the Articles of Incorporation and Bylaws were amended to reflect the Company's change from an assessable to a non-assessable mutual.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed.

The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company purchases errors and omissions insurance for its four agent directors. The Company's independent agents are responsible for obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees. The Company provides health insurance for the employees and their families and life insurance for the employees. The Company contributes up to three percent in matching funds to the 401(k) retirement plans of the employees. A retirement bonus is also paid to eligible retirees. The employees also receive five days of sick leave per year and one to three weeks of paid vacation per year, depending on the length of service to the Company. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by seventeen licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the Company's inspector/adjuster and adjusting services are performed by an independent adjuster.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$4,096,366	\$838,790	\$1,542,856	\$823,536	\$145,698	\$(173,392)	\$(46,593)
2003	3,950,969	646,800	1,212,512	1,091,838	120,090	(178,782)	(94,230)
2002	3,989,569	591,170	1,048,911	999,644	176,987	(93,016)	29,220
2001	3,885,265	516,086	942,193	1,082,589	206,582	(172,764)	(19,344)
2000	3,900,539	512,016	894,919	509,570	234,917	(63,895)	103,654

At year-end 2004, 3,110 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$894,919	\$942,193	\$1,048,911	\$1,212,512	\$1,542,856
Assumed	(2,561)	9,069	8,091	10,325	9,301
Ceded	(238,237)	(255,922)	(313,238)	(400,974)	(407,356)
Net	<u>\$654,121</u>	<u>\$695,340</u>	<u>\$743,764</u>	<u>\$821,863</u>	<u>\$1,144,801</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 4% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess portion of the agreement, the Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Annual premium paid to the reinsurer for 2004 was \$.4038 for fire and \$.1069 for wind per \$1,000 of adjusted gross fire risks in force.

Under the aggregate excess portion of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$640,800 and the annual premium paid was \$.4641 per \$1,000 of adjusted gross fire risks in force.

Under the facultative reinsurance portion of the agreement, the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

Under the comprehensive liability section of the agreement, the Company cedes 100% of the risk and premium for comprehensive personal and farmer's comprehensive personal liability policies, and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a modified cash basis. An annual audit of the Company's financial statements is performed by William & Associates, Certified Public Accountants, who also prepares the Company's Annual Statement and tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding

such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2004

Bonds	\$ 3,730,712
Real Estate	33,950
Cash on Deposit	116,468
Other Investments	77,180
Reinsurance Recoverables on Unpaid Losses	10,000
Computer Equipment	41,683
Interest Due and Accrued	17,289
Asset Write-Ins	69,084

Total Assets	\$ 4,096,366
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid	\$ 101,972
Ceded Reinsurance Payable	30,912
Unearned Premium	653,790
Liability Write-ins	52,116

Total Liabilities	\$ 838,790

Guaranty Fund	\$ 358,327
Other Surplus	2,899,249

Total Surplus	\$ 3,257,576

Total Liabilities and Surplus	\$ 4,096,366
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STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 992,532
Net Losses Incurred	(606,592)
Other Underwriting Expenses	(559,332)

Net Underwriting Income (Loss)	\$ (173,392)

Investment Income	\$ 145,698
Other Income	31,553

Gross Income (Loss)	\$ 3,859
Federal Income Tax	(50,452)

Net Income (Loss)	\$ (46,593)
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 3,304,169
Net Income (Loss)	(46,593)

Policyholders' Surplus, December 31, 2004	\$ 3,257,576
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Dade County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

May 1, 2008

Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA

Audit Manager – Kansas City

Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

03-17-2008



Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008